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SUBJECT: TWO ISSUES REGARDING IRRF RE-OBLIGATION AUTHORITY

Summary

1. As the infrastructure programs supported by Iraq Relief and Reconstruction Funds (IRRF) come to an end over the next year, it is important that we retain the ability to shift funds among projects through re-obligation authority. We also need to make the de-obligation/re-obligation procedures more efficient, both in Washington and in Baghdad. End Summary.

De-obligation/Re-obligation in the Supplemental

2. The latest conference version of the FY07 Supplemental Appropriations Bill that we have seen does not include language giving us the flexibility to de-obligate funds from some IRRF projects and re-obligate them to others. If such language is not added, the Administration will lose the flexibility to shift remaining funds to meet our needs. Lack of this flexibility will make it difficult to successfully complete the remaining important infrastructure projects in Iraq.

3. The FY06 Supplemental Appropriation included authority for us to re-obligate money. Some projects were not needed, were closed because of security concerns, or were handed over to the Iraqi Government to complete at lower cost. Others suffered cost overruns because of unforeseen expenses or the need for more capacity. The ability to shift funds among them has been valuable - we have de-obligated \$300 million using our current authority. The de-ob/re-ob process is rigorous and transparent. If we shift funds between projects in different sectors, Congressional notification is required.

4. I understand that the Department has made inclusion of re-obligation authority a top priority and that the Deputy Secretary personally has engaged Congressional leadership on

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this point. Please let me know if I can reinforce the importance of this issue by making calls or by having my staff provide examples or details. MNF-I tells me that the Defense Department is also pressing this issue on the Hill.

Increasing De-obligation/Re-obligation Efficiency

5. The second issue is the time required by the current de-ob/re-ob process. This will become especially critical if re-obligation authority is not extended. It can take more than 60 days from the point at which we identify a need to the point at which we receive authorization to shift funds - not including Congressional Notification (CN) period.

6. I recommend that State, Defense, and OMB take a look at whether the process of de-ob/re-ob can be speeded up in Washington. For our part, I have instructed my staff to make sure that we are acting as quickly as possible on de-ob/re-ob in Baghdad. We cannot short-circuit the process, but we

should ensure that requests receive prompt review at every stage as we enter this crucial period. IRRF is still making a major contribution but largely will be judged on how it ends. We owe it to the people of Iraq and to U.S. taxpayers to spend the remaining \$3 billion as wisely as possible.

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